

Message Text

LIMITED OFFICIAL USE

PAGE 01 SANTIA 05926 01 OF 02 292323Z

66

ACTION ARA-10

INFO OCT-01 ISO-00 TRSE-00 AID-05 EB-07 L-03 EUR-12 OMB-01

CIAE-00 INR-07 NSAE-00 CIEP-01 CEA-01 OPIC-03 SP-02

NSC-05 SS-15 STR-04 /077 W

----- 021198

R 292238Z AUG 75

FM AMEMBASSY SANTIAGO

TO SECSTATE WASHDC 4579

LIMITED OFFICIAL USE SECTION 1 OF 2 SANTIAGO 5926

E. O. 11652: N/A

TAGS: EFIN, EAID, CI

SUBJECT: ATTENDANCE OF GOC FINANCE MINISTER JORGE CAUAS AT
BANK AND FUND MEETINGS

REF: SANTIAGO 5848

1. SUMMARY. THIS TELEGRAM DISCUSSES ISSUES CAUAS HAS TOLD US
HE WISHES TO RAISE IN REQUESTED BILATERAL CONVERSATIONS, CERTAIN
OTHER ISSUES, AND SOME GENERAL BACKGROUND. END SUMMARY.

2. POINTS WHICH CAUAS WANTS TO RAISE.

A) DEBT RESCHEDULING. AS WASHINGTON AWARE, GOC IS HAVING
PROBLEMS, PARTICULARLY WITH UK, NEGOTIATING DEBT RESCHEDULING
AGREEMENTS WITH NONPARTICIPATING MEMBERS OF PARIS CLUB. WE
ASSUME THAT GOC CAN BE DECLARED TECHNICALLY IN DEFAULT IF NON-
PARTICIPANT COUNTRIES INSIST ON SCHEDULED PAYMENTS AND GOC
REJECTS THEIR DEMANDS. GOC VERY CONCERNED THAT SUCH ACTION,
ESPECIALLY IF TAKEN BY UK, WOULD MAR CHILE'S STANDING IN INTER-
NATIONAL CREDIT MARKETS TO WHICH GOC ATTACHES GREAT DEAL
OF IMPORTANCE. CAUAS MAY ASK US TO HELP WITH UK AND WITH OTHER
EUROPEAN COUNTRIES. FOR GOC, PARIS CLUB HAS BECOME A DIFFICULT
AND TO SOME EXTENT A HUMILIATING FORUM IN WHICH TO NEGOTIATE
CHILE'S DEBTS, THOUGH THERE IS NO APPARENT ALTERNATIVE. SINCE
CHILE'S INTERNATIONAL POLITICAL IMAGE HAS NOT IMPROVED AND HUMAN
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 SANTIA 05926 01 OF 02 292323Z

RIGHTS ISSUES REMAIN ACUTE, PROSPECTS ARE THAT 1976 PARIS CLUB

SESSION WILL BE, IF ANYTHING, HARDER TO ORGANIZE THAN 1975 SESSION. GOC ALSO TROUBLED BY FACT THAT CHILE'S ALREADY TREMENDOUS DEBT BURDEN WILL ALMOST CERTAINLY BE LARGER IN NEXT FEW YEARS WHILE RENEGOTIABLE PORTION WILL BE DECLINING. GOC WOULD PREFER COMPREHENSIVE MULTI-YEAR RESCHEDULING TO MITIGATE BURDEN DURING PERIOD OF ECONOMIC RECONSTRUCTION. OR, IF THIS NOT FEASIBLE, LINKAGE BETWEEN DEBT PAYMENTS AND COPPER PRICES AND/OR EXPORT RECEIPTS.

B) OPIC GUARANTEES. IN ADDITION TO THE MORE TECHINCAL ASPECTS OF AN OPIC BILATERAL, SUCH AS VARIOUS MODES OF ARRIVING AT A SUBROGATION AGREEMENT CONSISTENT WITH CHILE'S ANDEAN PACT REQUIREMENTS, CAUAS MAY WISH TO DISCUSS GENERAL PROBLEM OF ENCOURAGING U.S. INVESTMENT.

3. GENERAL ECONOMIC POSITION OF CHILE. FOLLOWING GENERAL BACKGROUND MATERIAL MAY BE HELPFUL IN COPING WITH CAUAS' DISCUSSION OF THIS SUBJECT.

A) THE MILITARY GOVERNMENT WHICH TOOK OVER CHILE IN SEPTEMBER 1973 INSTITUTED A PROGRAM FOR REVITALIZING THE PRIVATE SECTOR AND FOR REDUCING GOVERNMENTAL INTERVENTION AND PARTICIPATION IN THE ECONOMY TO MODERATE PROPORTIONS. THE OBJECT WAS TO ESTABLISH A MIXED ECONOMY IN WHICH GOVERNMENT REGULATED THE ECONOMY LARGELY VIA INDIRECT MEASURES AND THE PUBLIC SECTOR ROLE WAS LIMITED TO KEY INDUSTRIES SUCH AS COPPER, STEEL, AND PETROLEUM. IN THE ENSUING MONTHS MOST PRICE CONTROLS WERE LIFTED, MANY NATIONALIZED FIRMS WERE RETURNED TO THEIR FORMER OWNERS, REALISTIC EXCHANGE POLICIES WERE ADOPTED, TARIFFS WERE LOWERED, AND A LIBERAL FOREIGN INVESTMENT CODE WAS ADOPTED.

B) RENEGOTIATION OF A SIZABLE PART OF CHILE'S 1973 AND 1974 FOREIGN DEBTS WITH THE PARIS CLUB AND HIGH COPPER PRICES ALLOWED THE ECONOMY TO RECOVER AT A SATISFACTORY RATE DURING THE FIRST YEAR OF THE NEW GOVERNMENT. THE MONTHLY RATE OF INFLATION WAS HALVED AND TWO KEY SECTORS, AGRICULTURE AND MINING, REGISTERED LARGE INCREASES IN OUTPUT.

C) THE PROGRAM FOR GRADUAL STABILIZATION OF THE ECONOMY WOULD HAVE CONTINUED TO SHOW FAIRLY SATISFACTORY PROGRESS HAD THE EXTERNAL ENVIRONMENT REMAINED MODERATELY FAVORABLE. A SIXTY PERCENT DROP IN COPPER PRICES IN MID-1974 FROM THEIR EARLY 1974 HIGHS COUPLED WITH A THREE-FOLD INCREASE IN OIL IMPORT PRICES AND RAPIDLY RISING PRICES FOR CHILE'S OTHER IMPORTS, LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 SANTIA 05926 01 OF 02 292323Z

HOWEVER, CONVERTED A PRECARIOUS BOP SITUATION INTO A WIDENING EXTERNAL PAYMENTS GAP. IMF STAND-BYS, THE OIL FACILITY, PL-480 AND OTHER INTERNATIONAL ASSISTANCE CUSHIONED THE IMPACT BUT WERE INADEQUATE TO AVERT A POWERFUL JOLT TO THE FRAGILE, DISEQUILIBRATED CHILEAN ECONOMY. PRICES BEGAN TO ACCELERATE AND CHILE SUFFERED CONCURRENTLY DEEPENING RECESSION AND RISING INFLATION.

LIMITED OFFICIAL USE

NNN

LIMITED OFFICIAL USE

PAGE 01 SANTIA 05926 02 OF 02 292330Z

66

ACTION ARA-10

INFO OCT-01 ISO-00 TRSE-00 AID-05 L-03 EUR-12 OMB-01

CIAE-00 INR-07 NSAE-00 CIEP-01 CEA-01 OPIC-03 SP-02

EB-07 NSC-05 SS-15 STR-04 /077 W

----- 021289

R 292238Z AUG 75

FM AMEMBASSY SANTIAGO

TO SECSTATE WASHDC 4580

LIMITED OFFICIAL USE SECTION 2 OF 2 SANTIAGO 5926

D) THE GOC WAS CONFRONTED WITH TWO CLEAR CHOICES: 1) RATIONING FOREIGN EXCHANGE, REIMPOSING OLD IMPORT BARRIERS, AND RE-ESTABLISHING EXTENSIVE PRICE AND FINANCIAL CONTROLS AND AN INTERVENTIONIST ECONOMIC POLICY; OR 2) ADOPTING SEVERE FISCAL AND MONETARY RETRENCHMENT AND LEAVING THE MARKET FREE TO PLAY TO ADJUST THE ECONOMY TO NEW CIRCUMSTANCES. ALTHOUGH IN FACT THE ECONOMIC RECOVERY PROGRAM ADOPTED IN APRIL 1975 IS A MIXED STRATEGY, IT IS MUCH MORE HEAVILY WEIGHTED TOWARD THE SECOND ALTERNATIVE THAN THE FIRST.

E) TWO UNHAPPY RESULTS ARE A RAPIDLY INCREASING RATE OF UNEMPLOYMENT (ABOUT 16 PERCENT IN JUNE) AND A SEVERE DROP IN MANUFACTURING (ALREADY DOWN BY 17 PERCENT THROUGH MAY) AND CONSTRUCTION (DOWN ABOUT 33 PERCENT). WHILE THE AUSTERITY PROGRAM HOLDS OUT CONSIDERABLE PROMISE FOR GREATLY IMPROVING CHILE'S LONG-TERM EXTERNAL POSITION AND FOR REDUCING INFLATION TO MODES (BY CHILEAN STANDARDS) RATES, THIS IS COLD COMFORT TO THE MANY WHO ARE IN DISTRESSING ECONOMIC CIRCUMSTATNCES.

F) GOC ECONOMIC POLICYMAKERS ARE HOPING THAT AUSTERITY AND TRADE LIBERALIZATION MEASURES WILL RESULT IN A VERY SHARP EXPANSION IN NONTRADITIONAL EXPORTS AND A MARKED CONTRACTION IN IMPORTS. INITIALLY, THIS SEEMS TO BE OCCURRING. IF THESE HOPED-FOR DEVELOPMENTS PERSIST, AND IF COPPER PRICES REBOUND MODESTLY, ECONOMIC POLICYMAKERS EXPECT ECONOMIC ACTIVITY TO RECOVER APPRECIABLY IN 1976 WITHOUT EXERTING UNBEARABLE BOP STRAINS, PROVIDED

1) IFI AND OTHER FINANCIAL ASSISTANCE BECOMES AVAILABLE IN
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 SANTIA 05926 02 OF 02 292330Z

ABOUT THE SAME AMOUNTS AS IN 1974, AND 2) CHILE'S IMPORTS DO NOT BECOME MUCH MORE COSTLY.

G) LONG-TERM SUCCESS OF THE ECONOMIC LIBERALIZATION PROGRAM DEPENDS IN LARGE MEASURE ON THE CONSTRUCTION OF A STABLE INTERNATIONAL ECONOMIC ENVIRONMENT. ONE ELEMENT IS, OF COURSE, ACCESS TO MARKETS. ANOTHER IS GREATER STABILITY FOR EXPORT EARNINGS AND CHILE'S TERMS OF TRADE.

H) THE CONSENSUS WITHIN THE JUNTA ON THE PRESENT AUSTERITY PROGRAM IS A FRAGILE ONE. WE DO NOT THINK THAT THE PRESENT JUNTA (OR ANY SUCCESSOR GOVERNMENT) IS SUFFICIENTLY PERSUADED OF THE EFFICACY OF FREE MARKET POLICIES TO THE EXTENT THAT THEY WILL CONTINUE TO ENFORCE THEM AT PRESENT COSTS UNLESS THEY BEGIN TO SHOW FAIRLY RAPID SUCCESS IN REVERSING THE DOWNWARD TREND. MOREOVER, EVEN WITH SOME IMMEDIATE SUCCESS, WE FORESEE MORE AND MORE GOVERNMENT INTERVENTIONS IN THE MARKET MECHANISM MADE IN ORDER TO REDUCE INDIVIDUAL HARDSHIPS, POSSIBLY TO THE POINT WHERE THE EFFICACY OF THE AUSTERITY PROGRAM IS COMPROMISED. FINALLY, TO THE EXTENT THAT LOWER COPPER PRICES AND HIGHER FUEL AND OTHER IMPORT PRICES CONTINUE TO BE THE RULE, GOC WILL BE UNDER INCREASING PRESSURE TO SCUTTLE OPEN-MARKET POLICIES AND REVERT TO INCREASED GOVERNMENT INTERVENTION IN THE ECONOMY.

4. OTHER POINTS WHICH CAUAS MIGHT RAISE.

A) COPPER PRICES. AS A LONGER TERM MATTER, GOC WOULD BE INTERESTED IN USG SUPPORT TO HELP BOLSTER DEPRESSED COPPER PRICES THROUGH INTERNATIONAL ACTION. GOC MIGHT BE WILLING TO ACCEPT CONSUMER PRESENCE IN CIPEC IF USG WERE FORTHCOMING ON MEASURES TO STABILIZE COPPER MARKET.

B) AID TO MIDDLE INCOME COUNTRIES. CAUAS HAS PLUMPED VERY HARD WITH EMBOFFS THEME THAT "MIDDLE INCOME" DEVELOPING COUNTRIES

ARE BEING SLIGHTED BY IFIS. CAUAS HAS IDEAS WHICH WOULD ENABLE THIS PARTICULAR CATEGORY OF COUNTRIES TO TAP INTERNATIONAL CAPITAL MARKET ON LESS EXPENSIVE TERMS THAN GOING INTEREST RATE TO MOST SEVERELY AFFECTED LDCS.

C) AID. GOC CONCERNED THAT USG CONTINUE TO RENDER DEVELOPMENT ASSISTANCE NOT ONLY FOR ITS ECONOMIC VALUE BUT ALSO FOR ITS DEMONSTRATION EFFECT ON INVESTORS AND INTERNATIONAL FINANCIAL COMMUNITY.

POPPER

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 SANTIA 05926 02 OF 02 292330Z

LIMITED OFFICIAL USE

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: FINANCE, MINISTERIAL VISITS, MEETINGS
Control Number: n/a
Copy: SINGLE
Draft Date: 29 AUG 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: RowellE0
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975SANTIA05926
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D750300-0560
From: SANTIAGO
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t1975085/aaaaadoi.tel
Line Count: 221
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION ARA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 75 SANTIAGO 5848
Review Action: RELEASED, APPROVED
Review Authority: RowellE0
Review Comment: n/a
Review Content Flags:
Review Date: 21 MAY 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <21 MAY 2003 by ShawDG>; APPROVED <08 OCT 2003 by RowellE0>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
06 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: ATTENDANCE OF GOC FINANCE MINISTER JORGE CAUAS AT BANK AND FUND MEETINGS
TAGS: EFIN, EAID, CI, (CAUAS, JORGE)
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006